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How Millennials Became Spooked by Credit Cards

By NATHANIEL POPPER AUG. 14, 2016

Kids these days: They just aren't pulling out the plastic like they did in the past.

Data from the Federal Reserve indicates that the percentage of Americans under 35 who hold credit card debt has fallen to its lowest level since 1989, when the Fed began collecting data in a standardized way, according to an analysis by The New York Times.

Some older Americans have also been shedding credit card debt since the financial crisis that began in 2008. But for no other age group has the decline in the proportion holding credit card debt been more rapid than it has been for young Americans — who are often referred to as millennials — the data from the Survey of Consumer Finances shows.

"It's pretty clear that young people are not interested in becoming indebted in the way that their parents are or were," said David Robertson, the publisher of The Nilson Report, a newsletter that tracks the payment industry.

Their reluctance could have lasting repercussions for millennials, as well as for the financial system and the economy. Early use of credit cards has, in the past, helped young Americans develop a comfort level with credit that can last a lifetime and lead to a succession of big purchases financed by debt. Without a substantial credit history, it is much harder to take out a home mortgage, for example.

"It will probably take them longer to get access to credit," said Gregory Elliehausen, an economist at the Federal Reserve specializing in consumer finance. "In the meantime, their behavior and some of their habits will have already been formed."

Over all, Americans' use of credit cards has recently been creeping up again: Household debt in the United States increased by $35 billion, to $12.29 trillion, during the second quarter of 2016, a 0.3 percent rise from the previous quarter that was driven by credit cards and auto loans, according to a report released on Tuesday by the Federal Reserve Bank of New York.

Banks say that their credit card operations are running at full tilt, and that in recent months the number of people having trouble paying their bills has been at record lows.

But many younger people have been sitting on the sidelines, deterred by new laws passed after the crisis and big loads of student debt. They are also spooked by the temptation that credit cards offer to spend beyond one's means.

Jason Towner, a 32-year-old who works at a private equity firm, cut up his last credit card, from Capital One, in 2010. He did not have any unruly debts, but he had just watched his father and sister close the family furniture store after a bank cut off their credit line in the middle of the financial crisis.

"I was seeing what was happening around the world, and what was happening in my backyard, and I was thinking, 'This is not a great idea,'" Mr. Towner said recently.

The resurgence of overall credit card use in the United States over the last year or two has been driven largely by subprime borrowers, according to the Federal Reserve, which has not looked at the recent growth in borrowing by age.

But it is clear to economists who study payment patterns that millennials are gravitating toward payment methods that skirt both cash and credit. Why carry cash when you can whip out a debit card for the smallest transaction — a sandwich or a bottle of soda — or use an app like Venmo or an online payment service like PayPal? All of those typically draw funds directly from a bank account.

Mr. Elliehausen of the Federal Reserve said he expected the aversion to debt among young Americans to continue, potentially with a downside. Credit cards are frequently necessary for the bigger purchases — like washing machines and computers — that can make households more efficient and help the economy grow. And credit cards are usually an essential part of the credit history that allows someone to borrow to buy a house.

Only 37 percent of American households headed by someone aged 35 and under held credit card debt in 2013, the most recent year for which data from the Survey of Consumer Finances is available, down by nearly a quarter from immediately before the financial crisis. That statistic may undercount young cardholders to some extent, as it excludes people under 35 who live with their parents.

But more recent data has also suggested that millennials are using credit cards less than people of a similar age did in the past — and that they are taking on fewer auto loans and mortgage loans than people of similar age did before the financial crisis.

Rebecca Liebman, 23, graduated from Clark University in 2015 with a load of student debt. She avoided getting a credit card until earlier this year, and did so then only because she kept hearing about how she would need to build up her credit history if she ever hoped to get a mortgage.

"I don't want to use a credit card irresponsibly, and because of that, it's scarier to use," she said. "I grew up — I saw 2008 — I saw my dad get laid off. I don't trust the financial market."

Today Ms. Liebman is a founder of a financial literacy site for millennials, LearnLux, and the reluctant holder of a Discover card. Even after getting the card, it took her five months to overcome her ingrained aversion to debt and make her first purchase — a physical wallet.

She understands what the aversion will mean for her and for her customers.

“It’s going to make me buy a home a lot later in life,” Ms. Liebman said. “It think it will impact a lot of big decisions and push them further out. There are some things that are going to be specific to our generation around financial decision-making for sure.”

The reasons for the shift are varied: Like Ms. Liebman, many young people carry burdensome loads of student debt, making it hard for them to take on any more debt — and giving them a sour taste in their mouths when it comes to credit of any sort. The average American under 35 now has $17,200 of student debt, 182 percent more than Americans of the same age had in 1995, the Fed data shows.

On a more practical level, laws passed after the financial crisis made it much harder for younger people to secure cards unless they could prove they had the income to pay the bills. The tents that credit card companies used to pitch all over college campuses — offering students free T-shirts when they signed up for cards — have largely disappeared.

Then there are the young professionals who are able to get a card, but have seen the strain that debt put on their families and friends during the financial crisis.

Mr. Towner, whose job in private equity involves lending money to small businesses, is a prime example. To him, the risks involved with debt outweigh the benefits, so he tends to use Venmo and PayPal, or, whenever possible, cash. When he bought his apartment in Berkeley, Calif., he chose a foreclosure and paid with money he had in the bank.

“I don’t want to go out and buy, buy, buy, even though that’s what society wants me to do,” Mr. Towner said. “I want to save and invest for the long term.”

Correction: August 15, 2016

An earlier version of this article misstated which university Rebecca Liebman attended. She graduated from Clark University, not Bentley University.

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